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DEPT FOR NEA/ARP
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FROM AMBASSADOR GRAPPO TO REPRESENTATIVE DAVID PRICE

E.O. 12958: N/A
TAGS: [OREP](#) [PGOV](#) [PREL](#) [PTER](#) [MU](#)
SUBJECT: SCENESETTER FOR CODEL PRICE'S VISIT TO OMAN

REF: STATE 169292

11. (SBU) Embassy Muscat and I warmly welcome you and your delegation to Oman. We look forward to your arrival on January 7 to tour the Port of Salalah and discuss international trade security in the context of our overall bilateral relationship with Oman. In order to fulfill the objectives of your visit, we are seeking an audience with Sultan Qaboos bin Said, Oman's head of state, as well as meetings with Yousef bin Alawi, Minister Responsible for Foreign Affairs, and Malik al-Ma'amari, Inspector General of the Royal Oman Police. End Summary.

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Strong Bilateral Relationship
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12. (SBU) We enjoy a strong bilateral relationship with Oman, one that officially dates back to 1833 with the signing of the Treaty of Amity and Commerce. Under the leadership of Sultan Qaboos bin Said, Oman has proven to be a stable and reliable ally in a volatile part of the world. Since taking over the government in 1970, the Sultan has been able to gain and keep the allegiance of tribal groups and religious sects; maintain amicable relations with neighbors; control religious fundamentalism; and guide the country through conservative but consistent economic growth and political reform. With Oman's decidedly pro-West government and its strategic location presiding over the shipping lanes of the Strait of Hormuz, Oman likely will remain a key regional ally.

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Military Cooperation
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13. (SBU) Military cooperation forms a cornerstone of our relationship with Oman, as evidenced by our long-standing base access agreement with Oman signed in 1980. Oman has supported all of our military requests, including substantial basing and access needs during the height of Operation Enduring Freedom, Operation Iraqi Freedom, and Desert Storm. Its location at the Strait of Hormuz makes it a natural hub outside of the Gulf to support current or future operations in Afghanistan, Iran, Iraq, the Horn of Africa and across the Indian Ocean rim.

14. (SBU) Our engagement with the Omani military continues to grow and deepen, especially with the presence of our War Reserve Materiel (WRM) sites, the recent purchase of 12 F-16s, and greater interest in cooperating on border security matters. Oman's use of Foreign Military Financing (FMF) and Foreign Military Sales (FMS) has proven effective, and the military smoothly integrates new equipment into its operations. Oman's FMF budget has been in decline, however,

with FY08 figures equaling \$10.1 million, down from \$19.8 million in FY05. Oman has made good use of its approximately \$1.08 million IMET allocation for U.S. military training, and its graduates have risen to high positions within Oman's armed forces.

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Trade and Border Security
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15. (SBU) We are working closely with Oman to strengthen security at its ports and along its borders to prevent the proliferation of nuclear and other weapons of mass destruction (WMD) or their components. The Port of Salalah - one of the busiest transshipment ports in the world - has been a primary focus of these efforts. The port is participating in the Department of Energy's Megaports program and is a pilot port in the Secure Freight Initiative (SFI). The Port of Salalah hosts three Customs and Border Protection (CBP) targetters, who have been working closely with Royal Oman Police (ROP) Customs since 2005 under the auspices of the Container Security Initiative (CSI). Through ongoing technical and financial assistance from the U.S. Departments of Energy and Homeland Security, ROP Customs soon will be able to scan targeted containers through an Integrated Container Inspection System (ICIS) lane utilizing both x-ray and radiation detection equipment.

16. (SBU) While Oman is a willing participant in U.S.-sponsored programs to secure international trade, contacts at Port of Salalah are concerned that the new 100% scanning requirement for U.S.-bound cargo under the 9/11 Act will adversely affect trade at the port by lowering productivity, and - if not mandated worldwide - ultimately

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damage Salalah's ability to compete with other ports in the region. Port officials hope that the U.S. will use lessons learned from the SFI pilot to tailor U.S. security requirements to the needs of major transshipment hubs.

17. (SBU) Oman also has received equipment and technical assistance to strengthen its export control regimes under the U.S. Department of State's Export Control and Related Border Security (EXBS) program. In 2007, EXBS provided the ROP with ground sensors to track movement of people and vehicles across its border with Yemen. EXBS trainers also conducted workshops to encourage policy makers to pass export control legislation and adopt an export control list for sensitive and dual-use items. Through EXBS, we also encourage Oman to fully meet its commitments under United Nations Security Council Resolution 1540 to prevent the proliferation of chemical, nuclear and biological weapons.

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Regional Issues
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18. (SBU) A traditionally staunch supporter of the Middle East peace process, Oman takes an objective, pragmatic and non-confrontational approach to pressing regional security issues. On Iran, Oman maintains a cordial, although mostly non-substantive, relationship with Tehran. The Sultanate prefers dialogue and cooperation on maritime security and other shared interests - including the possible importation of Iranian gas - rather than isolating the regime in Tehran. The Omanis are concerned about the impact of Iran's nuclear enrichment program on the region's stability, but believe that harsher economic sanctions against Iran would not have a strong deterrent effect, as it might constrain diplomatic maneuverability in the long-term.

19. (SBU) Oman remains generally supportive of our efforts to promote security and political stability in Iraq, but is very concerned about the ability of Iraq's leadership to overcome allegiance to particular factions/groups in meeting this

long-term goal. Like its neighbors, Oman is worried that extremism and sectarianism in Iraq could spill over into the region. Oman is not a source or transit country for either illicit funds or foreign fighters destined for Iraq.

¶10. (SBU) The Israeli-Palestinian conflict continues to be a source of high-level interest, and the Omani government supported the President's November 26-27 Middle East peace conference in Annapolis. On Lebanon, Oman supports the government of PM Siniora, who met with the Sultan in January 2007, but hopes that the different Lebanese factions can reach a consensus to resolve the current political crisis there.

¶11. (SBU) Oman has been free from terrorist activity and works closely with the USG on terrorism-related issues. It is not a regional or offshore financial center; accordingly, it does not have a significant money laundering problem. Its modest banking sector is closely supervised by the Central Bank of Oman, and the government has issued a series of decrees to combat money laundering.

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Economic Overview
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¶12. (SBU) Oman's economy is based primarily on revenues derived from petroleum and natural gas, which are expected to account for 79% of the government's income in calendar year ¶2007. Oman's proven recoverable oil reserves are estimated at 4.8 billion barrels, though Ministry of Oil and Gas officials are optimistic that over 35 billion barrels remain to be recovered. The main oil producer is the government majority-owned Petroleum Development Oman (PDO, in partnership with Royal Dutch Shell), which controls 90 percent of reserves and the lion's share of total production.

U.S.-owned Occidental Petroleum is the second largest producer in Oman, and has committed to investing more than \$3 billion over the next several years in enhanced oil recovery efforts in mature fields.

¶13. (SBU) High oil prices over the past several years have led to solid Omani budget surpluses and GDP growth, despite declining oil production. Oman's economy, with GDP estimated at \$35.5 billion, grew over 15% in 2006, and is on track to gain more than 11% in 2007. The government planned on spending approximately \$4 billion more than in 2006 on investment-related expenditures, with \$1.5 billion allocated

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to enhancing oil production capabilities and \$1 billion on gas production capabilities. The hefty investment budget reflects continued government emphasis on reversing declining oil production rates, locating additional pockets of gas reserves, and promoting diversification of the economy. Under the government's seventh Five-Year Plan, to cover 2006-2010, the average investment rate over the five-year period is estimated to be 24% of GDP. Oman also is using its budget surpluses and oil revenues to strengthen the economy in the long-run by shoring up its 21-year old pension fund, reducing the debt, and strengthening a number of reserve funds.

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Free Trade Agreement
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¶14. (SBU) On October 2006, Oman became the fourth Arab country to sign a Free Trade Agreement with the U.S. Implementation of the Agreement, however, still is pending the resolution of issues related to intellectual property, customs, telecommunications, and transparency, among others. The Sultan has a personal interest in the FTA and has instructed his ministers to work actively for its success. The FTA supports Oman's efforts to diversify its economy, and Oman hopes that the Agreement will bring increased U.S.

private investment to industry, telecommunications, tourism and high education. Oman is planning a trade and investment promotional tour of the U.S. in 2008, with proposed stops in New York, Chicago, Houston, Los Angeles, and Washington. Oman also is using the promise of duty-free access to the U.S. market as a major selling point to attract investment from other countries in the region.

¶15. (SBU) In order to comply with the FTA's labor provisions, the government introduced sweeping reforms to its 2003 labor law. Under these reforms, workers now are allowed to organize unions, conduct strikes, and engage in collective bargaining - freedoms that were unheard of less than two years ago. Due to the quick pace of reform, however, government, business and labor representatives are uncertain about their future relationships with each other. Effective implementation of labor reforms and the development of labor unions are becoming major components of our bilateral assistance under the Middle East Partnership Initiative (MEPI).

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Hot Button Issue
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¶16. (SBU) While our relationship is generally free of bilateral irritants, the Omani government reacted strongly to its Tier 3 designation on the State Department's annual Trafficking in Persons (TIP) report. Nevertheless, the designation has gotten their attention. Since the designation, the government has drafted, with the assistance of a prominent U.S.-based expert, an anti-TIP law that both criminalizes TIP and establishes a national committee to coordinate anti-TIP initiatives. In December 2007, the Ministry of Foreign Affairs hosted an inter-ministerial workshop to review and critique the draft law, and contacts hope that the Council of Ministries will approve the law in early 2008. If passed, the law and formation of a national committee represent significant steps by the government in addressing our concerns.
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